

Message Text

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ACTION EB-04

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S E C R E T NEW DELHI 13006

E.O. 11652: N/A

TAGS: EFIN, IN, US

SUBJECT: RUPEE AGREEMENT

LIMDIS GREENBACK

FOR VOLCKER

1. I FEAR I MUST ASK YOUR HELP AGAIN ON RUPEES. IN THE LARGE, THINGS ARE GOING VERY WELL. WE HAVE JUST LEARNED, IN CONFIDENCE, FROM WASHINGTON THAT THE SENATE/HOUSE CONFEREES HAVE STRUCK THE SECOND BYRD AMENDMENT, THIS TIME FROM THE AID BILL, AND WE HAVE CLEAR SAILING THERE. ACTUALLY, WE GINNED UP A CONSIDERABLE AMOUNT OF SUPPORT FOR THE AGREEMENT. JOHN MCCORMACK, FOR EXAMPLE, CAME DOWN FROM BOSTON TO SPEAK TO THE HOUSE LEADERSHIP ABOUT IT. (WE ARE BUILDING A JOHN W. MCCORMACK HOSPITAL OUT HERE AS PART OF A JESUIT MEDICAL CENTER. THEY NOW WANT TO EXPAND INTO STUDIES OF QTE POPULATIONAL DYNAMICS UNQTE AND WE ARE GOING TO BE MORE THAN WILLING TO PUT UP SOME RUPEES TO HELP.) I DON'T KNOW WHAT YOUR PRESENT VIEWS ON AID FINANCING MAY BE, BUT IN THE COURSE OF THE PAST FEW WEEKS WE HAVE GOT TO SOME PRETTY INFLUENTIAL PEOPLE ON THE HILL SAYING WE ARE DOING GOOD THINGS WITH RUPEES OUT HERE AND HAVING THEM VERY MUCH AGREE. AT THIS END, THE NEGOTIATION GOES VERY NICELY. WE HAVE A DRAFT AGREEMENT ALL BUT FINISHED. ONE MORE SESSION AND WE WILL BE THROUGH. THE ONLY

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REMAINING QUESTION IS MAINTENANCE OF VALUE.

2. OUR PROBLEM CAN BE STATED VERY SIMPLY. THE CLAUSE WOULD NOT BE GIVING THEM ANY TROUBLE EXCEPT THAT IT IS PERFECTLY OBVIOUS TO THEM, AND THEY DON'T MUCH TRY TO CONCEAL THE FACT, THAT THEY ARE GOING TO HAVE TO DEVALUE. OUR GUESS IS TO SOMETHING LIKE TEN OR ELEVEN RUPEES TO THE DOLLAR. IF THEY WERE TO DO THIS NEXT JULY, FOR EXAMPLE, AFTER OUR AGREEMENT GOES INTO EFFECT, A FULL M.O.V. PROVISION WOULD ADD DOLS 500 MILLION IN RUPEES TO OUR HOLDINGS. WE WOULD THEN HAVE DOLS 1.5 BILLION. THIS WOULD INSTANTLY DILUTE IF NOT DEFEAT THE WHOLE OBJECT OR OUR AGREEMENT, WHICH IS TO GET OUR PUPEE HOLDINGS TO A POINT WITHIN SIGHT OF DISAPPEARANCE. IN TRUTH THIS IS NOT GOING TO HAPPEN, UNLESS THERE IS A WILD INFLATION HERE. WE ARE RETAINING DOLS 1 BILLION. AT THE RATE WE ARE LIKELY TO BE SPENDING, IT WILL LAST TWENTY OR THIRTY YEARS. (I DO NOT SEE US SPENDING MORE THAN DOLS 20 MILLION A YEAR AT CURRENT PRICES FOR DECADES TO COME.)

3. THERE IS A TECHNICAL POINT WHICH THE INDIANS HAVE RAISED WITH RESPECT TO OUR PROPOSING M.O.V. ON THE DOLS 650 MILLION WE REGARD AS HAVING BEEN COVERED BY SUCH CLAUSES IN THE ORIGINAL AGREEMENTS. THEY POINT OUT, AND APPARENTLY THIS IS THE CASE, THAT ONLY ABOUT DOLS 150 MILLION OF OUR NON-PL 480 OUTSTANDING BALANCES, WHICH IS THE KIND WE ARE RETAINING, ARE DOLLAR DENOMINATED AND HAVE A M.O.V. PROVISION. AN APPROXIMATELY EQUAL AMOUNT OF NON PL 480 RUPEES IS DOLLAR DENOMINATED BUT HAS NO M.O.V. PROVISION (AND THE INDIANS CLAIM THEY ARE PREPAYING AT CURRENT RATES). THE REMAINDER OF THE DOLS 650 MILLION CONSISTS OF OUTSTANDING PL 480 BALANCES WHICH WE ARE NOT RETAINING. THEREFORE THEY CAME OUT WITH DOLS 150 MILLION FOR M.O.V.

4. I HAVE TOLD THE INDIANS THAT THIS MAKES NO DIFFERENCE TO ME, AS WE ARE REACHING A POLITICAL AGREEMENT HERE, NOT A LEGAL SETTLEMENT. THE AMOUNT OF OUR NEW HOLDINGS TO BE COVERED BY M.O.V. IS A POLITICAL MATTER TO BE SETTLED WITHOUT REFERENCE TO ANY PAST AGREEMENTS. JUST
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AS OUR DECISION TO WIPE OUT HUGE CHUNKS OF OUR RUPEE HOLDINGS IS A POLITICAL MATTER. THEY UNDERSTAND THIS WELL ENOUGH. WHAT BOTHERS THEM, TO REPEAT, IS THE IMMINENCE OF DEVALUATION.

5. CAN YOU HELP ME? GOPI KAUL HAS JUST TELEPHONED SAYING THE CABINET WOULD LIKE TO TAKE UP THE WHOLE PACKAGE ON MONDAY, AND COULD WE HAVE SOME RESPONSE TO

HIS HAVING INFORMED ME THAT ONLY DOLS 150 MILLION IS COVERED.
I THINK I COULD RAM THROUGH AN AGREEMENT TO COVER DOLS 500
MILLION FOR THEN YEARS DECLING AT DOLS 50 MILLION A YEAR.
WHAT DO YOU THINK? I AM LOATHE TO GET FRANTIC ON YOU
IN THIS WAY, BUT THEY REALLY ARE READY TO REACH AN
AGREEMENT HERE JUST NOW, AND I VERY MUCH WOULD HOPE WE
CAN DO SO BEFORE BREZHNEV ARRIVES AT THE END OF
THE MONTH. I CONSIDER IT POLITICALLY OF THE FIRST
IMPORTANCE.

6. I ASK YOU TO NOTE THAT YOU HAVE NOT BEEN GETTING
CABLES FROM ME ASKING FOR MORE DOLLAR AID TO INDIA.
YOU HAVE NOT BEEN GETTING CABLES FROM ME ASKING FOR ANY
AID TO INDIA WHATEVER. NOR DO WE PRESS FROM THIS
OUTPOST OF PAST EMPIRE FOR BUILDING UP THE WORLD BANK.
WE ARE EXCEEDINGLY CAUSTIOUS IN ALL THESE MATTERS, AND
DIFFERENT, I THINK FROM SOME PAST EMBASSIES. BUT IT
IS PRECISELY BECAUSE I WANT US TO GET HARD NOSED ON ALL
THOSE OTHER THINGS THAT I WANT FIRST TO REACH A GERNEROUS
SEEMING RUPEE AGREEMENTM IN ANY EVENT, IT ISN'T REAL
MONEY, AND THE ONLY WAY WE WILL GET TO SPEND THAT PART
WE RETAIN IS TO REACH SUCH AN AGREEMENT.

7. CAN'T WE DO THIS IN HONOR OF THE LONDON SCHOOL OF
ECONOMICS?
WARM REGARDS. PAT MOYNIHAN.
MOYNIHAN

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